United Nations S/2014/538

Security Council

Distr.: General
31 July 2014

Original: English

Note by the Secretary-General

The Secretary-General has the honour to transmit herewith to the Security Council the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2013.

Report of the Board of Auditors to the Security Council on the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2013

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Letter of transmittal

Letter dated 30 June 2014 from the Chair of the Board of Auditors addressed to the Secretary-General

I have the honour to transmit to you the report of the Board of Auditors on the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2013.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors

I. Report of the Board of Auditors on the financial statements: audit opinion

Report on the financial statements

We have audited the accompanying financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2013, which comprise the statement of income and expenditure and changes in reserves and fund balances (statement I), the statement of assets, liabilities, reserves and fund balances (statement II), the statement of cash flows (statement III) and the notes to the financial statements.

Management's responsibility for the financial statements

The Secretary-General is responsible for the preparation and fair presentation of the financial statements in accordance with the United Nations system accounting standards and for such internal control as he deems necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or to error.

Auditor's responsibility

It is the responsibility of the auditor to express an opinion on the financial statements based on the audit. The Board of Auditors conducted the audit in accordance with the International Standards on Auditing. Those standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

The Board of Auditors believes that the audit evidence obtained is sufficient and appropriate to provide a basis for the audit opinion.

Opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the United Nations Compensation Commission as at 31 December 2013 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of the United Nations Compensation Commission that have come to the notice of the Board, or that it tested as part of the audit, have in all significant respects been in accordance with the Financial Regulations and Rules of the United Nations and legislative authority.

In accordance with article VII of the Financial Regulations and Rules, the Board is also issuing a long-form report on the audit of the United Nations Compensation Commission (see sect. II).

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor General of China

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General of the
United Republic of Tanzania

30 June 2014

II. Long-form report of the Board of Auditors

Summary

The Board has audited the financial statements of the United Nations Compensation Commission for the biennium ended 31 December 2013, which have been prepared under United Nations system accounting standards. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations, as well as the International Standards on Auditing.

Audit opinion

In the opinion of the Board, the financial statements present fairly, in all material respects, the financial position of the Compensation Commission as at 31 December 2013 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards.

In its audit report for the previous biennium, the Board included an emphasis of matter on the recognition of only the cash proceeds from the sales of Iraqi oil and the impact of cash and barter transactions and deficiencies in metering systems in Iraq. As the deficiencies in metering systems and lack of income from barter transactions have been addressed, the Board no longer considers it necessary to retain an emphasis of matter drawing attention to this issue.

Key findings

Completion of the Compensation Commission's mandate

The Commission estimates that it should receive sufficient receipts from oil proceeds to discharge the remaining $8.9 billion compensation award to Kuwait during 2015. Following the settlement of the awards, its core mandate will be fulfilled. The Secretariat and the Governing Council now need to agree on an action plan to wind up the Commission, which should include both the administrative arrangements for closing the Commission and any wider decisions to be taken by the Governing Council and Security Council.

Projects under the Follow-up Programme for Environmental Awards

The Commission is also responsible for the oversight of the restoration and remediation projects under the Follow-up Programme for Environmental Awards arising from environmental damage caused during the 1991 Gulf War. In April 2011, in its decision 269, the Governing Council determined that the programme could be concluded in the near term, subject to the establishment of systems and controls by the participating Governments and the receipt of signed assurances providing for the maintenance of such systems and controls and for the use of award funds for completion of the projects. During 2013, the programme was concluded and the withheld funds were released.

Implementation of International Public Sector Accounting Standards

The Compensation Commission’s 2014 financial statements will be prepared under International Public Sector Accounting Standards (IPSAS). These will look considerably different as the Commission acts as an agent in the collection of oil receipts and the settlement of compensation payments. These significant transactions will not be recognized as revenue and expenses, respectively, and will not be presented in the performance statement. The Commission may therefore consider including additional disclosures in the notes to the financial statements on these core transactions to provide useful and relevant financial information on its primary mandate.

Overall conclusion

The Board found no significant errors, omissions or misstatements that would affect its opinion on the financial statements of the Commission. With payment of the remaining outstanding award expected in 2015 and the conclusion of the Follow-up Programme for Environmental Awards, the Commission is approaching the completion of its mandate and should make firm plans to ensure the orderly wind-down of its activities. Notwithstanding this, the Commission implemented IPSAS on 1 January 2014 and has established appropriate accounting polices under the revised reporting framework, though it now needs to develop appropriate disclosures to provide useful and relevant financial information on the core mandate activities.

Recommendations

In the light of the findings above the Board recommends that the Compensation Commission:

(a) **Continue to monitor the projected completion date for compensation payments to Kuwait and establish a formal liquidation plan for the orderly winding-up of its activities for approval by the Governing Council;**

(b) **Develop comprehensive disclosure notes on the oil proceeds and compensation payments for its IPSAS financial statements and sensitize the Governing Council to the forthcoming changes in the form and content of the financial statements.**

Follow-up of previous recommendations

All six recommendations from the biennium 2010-2011 have been fully implemented (see annex to chapter II).

A. Mandate, scope and methodology

1. The Board of Auditors has audited the financial statements of the United Nations Compensation Commission and has reviewed its operations for the financial period ended 31 December 2013 in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and Governing Council decisions, as well as the International Standards on Auditing. The latter standards require that the Board comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

2. The audit was conducted primarily to enable the Board to form an opinion as to whether the financial statements present fairly the financial position of the Compensation Commission as at 31 December 2013 and its financial performance and cash flows for the biennium then ended, in accordance with the United Nations system accounting standards. This included an assessment as to whether the expenditure recorded in the financial statements had been incurred for the purposes approved by the governing bodies and whether income and expenditure had been properly classified and recorded in accordance with the Financial Regulations and Rules of the United Nations. The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence to the extent that the Board considered necessary to form an opinion on the financial statements.

3. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the Security Council. The Board's report was discussed with the management of the Compensation Commission, whose views have been appropriately reflected.

B. Findings and recommendations

1. Progress towards the completion of the Compensation Commission's mandate

Oil proceeds and compensation payments

4. Under Security Council resolution 1483 (2003), the Compensation Commission receives 5 per cent of revenues from Iraqi oil exports to discharge outstanding compensation awards following the 1991 Gulf War. For the 2012-2013 biennium, oil proceeds yielded $9.1 billion (compared with $6.5 billion for the previous biennium). This 40 per cent increase is attributable to rising oil prices and increased oil production in Iraq.

5. At the beginning of the biennium, there were six outstanding compensation awards for $18.0 billion due to Kuwait. Payments are made quarterly based on oil income receipts, a total of $9.1 billion was paid during the biennium (compared with $6.1 billion for the previous biennium). As at 31 December 2013, the outstanding balance was $8.9 billion.

Fulfilment of the Commission's mandate

6. On the completion of its mandate, the Commission will be wound up. The projected date of the final settlement of the remaining award to Kuwait has

implications for the planning of the Commission’s closure and finalizing its activities.

7. Due to fluctuations in Iraqi oil production and oil prices, forecasting the future receipts from oil proceeds is inherently uncertain. However, the Commission now estimates that it may receive sufficient proceeds to discharge the remaining $8.9 billion compensation awards in 2015. At that point, the Commission’s mandate will be fulfilled. The Commission therefore needs to consider the administrative challenges that the winding-up will create. These include the responsibility for the management and retention of data and information related to the Commission, the accountability arrangements for closing financial statements and the mechanism for the disposal of residual assets, such as the operating reserves, under the Commission’s control. It should also establish and agree on a formal liquidation plan with its legislative bodies, covering the required activities and resources for the timely winding-up of the organization.

8. **The Commission agreed with the Board’s recommendation that it monitor the projected completion date for compensation payments to Kuwait and establish a formal liquidation plan for the orderly winding-up of the Commission’s activities for approval by the Governing Council.**

9. The Commission informed the Board that it had been working on establishing a liquidation plan and had requested the Office of Internal Oversight Services to review its preparedness. The liquidation of the Commission is also now a standing item on the Governing Council’s agenda.

2. Mandate under the Follow-up Programme for Environmental Awards

Background

10. In addition to paying the compensation awards approved by the Governing Council, the Commission was also responsible for the Follow-up Programme for Environmental Awards, established to monitor the technical and financial implementation of the environmental projects in the four participating Governments that incurred environmental damage during the 1991 Gulf War.

11. Twelve environmental awards and 14 monitoring and assessment awards totalling $4.36 billion were subject to the Programme. These include:

(a) Fifteen awards totalling $3.03 billion for Kuwait, with the largest projects relating to remediation of areas damaged by oil contamination and restoration of damage to terrestrial resources;

(b) Eight awards totalling $1.16 billion for Saudi Arabia, with the largest projects relating to remediation of damage to coastal resources and areas damaged by military presence and by airborne pollutants;

(c) One award of $161 million for Jordan, for cooperative rangeland restoration as a result of damages suffered from an influx of refugees from Iraq and Kuwait;

(d) Two awards totalling $521,000 for the Islamic Republic of Iran, for remediation of refugee campsites and a public health study.

Framework of controls

12. In its decision 258, the Governing Council established various mechanisms to ensure that participating Governments used the funds for the intended purpose. They included the submission of biannual reports from the national focal points within each Government and the establishment of independent reviewer teams with the requisite technical and financial expertise to review the reports for the Commission. The Council also directed the participating Governments to establish special accounts, through which the project awards less the amounts withheld, would be administered.

13. In April 2011, the Council confirmed that it would not be necessary for the monitoring to continue until the end of the projects and that the purpose and goals of the Programme could be fulfilled in the near-term. It decided that the mandate would be fulfilled after assessing the adequacy of the participating Governments' systems and controls for the management, project plans, treasury, finance and procurement actions and after the Governments concerned provided assurances over the maintenance of the systems and controls and for the use of the award funds for the successful completion of the projects.

14. On receiving the assurances from the participant Governments, and in accordance with Governing Council decisions, the Commission released $1.027 billion in withheld funds and accrued interest to Iran, Kuwait and Saudi Arabia in late 2013. In January 2014, withheld funds and interest of $40.7 million was released to Jordan.

15. Under the oversight of the Governing Council, a cumulative total of $757 million of the $4.3 billion total awards was released from the special accounts for project implementation. With the Commission's mandate under the Programme fulfilled, the respective national focal points are now responsible for the overall technical and financial oversight of the use of the awards, including authorizing the release of the remaining award funds.

Annual reporting to the Governing Council

16. Recipient Governments are now required to report annually to the Governing Council and, following its dissolution, to the Security Council, on the maintenance of the systems and controls, the use of the funds in the Special Accounts and the progress of the environmental projects, until such time as all projects are completed.

3. Implementation of International Public Sector Accounting Standards

Background

17. The Commission implemented International Public Sector Accounting Standards (IPSAS), in accordance with the United Nations-wide IPSAS implementation plan, on 1 January 2014. The accruals basis of accounting under IPSAS recognizes transactions and other events when they occur, not only when cash or its equivalent is received or paid. The transactions and events are recorded in the accounting records and recognized in the financial statements for the periods to which they relate. The adoption of IPSAS will have no impact on the underlying financial transactions or activities of the Commission, but introduces new terminology and changes the way in which transactions are treated and presented in the financial statements.

Progress towards IPSAS implementation

18. In its previous report (S/2012/605), the Board recommended that the Commission develop IPSAS-compliant accounting policies and prepare shadow financial statements under the IPSAS reporting standards. The primary purpose of that recommendation was to encourage the Commission to consider how receipts from oil proceeds and compensation payments would be presented in a set of IPSAS-compliant financial statements.

19. The United Nations, in consultation with the Commission, recognized that the Commission is responsible only for the administration of the funds. The United Nations does not underwrite the liability towards the claimant and therefore the outstanding balance is not a liability of the Commission. The Commission's proposed accounting treatment is to recognize a liability only for the amount received from the Government of Iraq. The oil proceeds will not be recognized as revenue, but as a liability. In other words, the amounts collected are held on behalf of the remaining claimant Government, pending settlement of compensation claims.

20. The Commission's administrative expenses will be recognized as an expense in the performance statement and matched by revenue transferred from the funds held to meet the liability for compensation claims. In the absence of the oil proceeds and claim payments, these transaction streams will be significantly more prominent in the Commission's financial statements.

21. While the Board agrees with the proposed accounting treatment under IPSAS, the Commission should consider additional disclosures in the notes to the financial statements regarding the settlement of compensation claims, to provide useful and relevant financial information on the core mandate activities.

22. **The Commission agreed with the Board's recommendation that it develop comprehensive disclosure notes on the oil proceeds and compensation payments for its IPSAS financial statements and sensitize the Governing Council to the forthcoming changes in the form and content of the financial statements.**

23. The Commission informed the Board that the Secretariat has incorporated the requirement to develop comprehensive disclosure notes in the IPSAS plan and will sensitize the Governing Council after conducting a financial statement simulation as at 30 June 2014.

C. Disclosures by management

24. The Commission informed the Board that there were no write-offs of losses of cash, receivables or property in the biennium. It also reported no ex gratia payments, fraud or presumptive fraud for biennium 2012-2013. None were identified through the audit work of the Board.

D. Acknowledgement

25. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Head, the Chief of Finance and Administration and other staff at the Commission, and those who support them in Geneva and New York.

(*Signed*) Sir Amyas C. E. **Morse**
Comptroller and Auditor General of the
United Kingdom of Great Britain and Northern Ireland
Chair of the Board of Auditors
(Lead Auditor)

(*Signed*) **Liu** Jiayi
Auditor General of China

(*Signed*) Ludovick S. L. **Utouh**
Controller and Auditor General of the
United Republic of Tanzania

30 June 2014

Annex

Status of implementation of recommendations

Recommendations fully implemented by the Commission

Summary of 2010-2011 recommendation	*Paragraph reference*	*Financial period first made*	*Action by the United Nations Compensation Commission*	*Board's view on the action*
Actively resolve and settle, where appropriate, the non-material compensation claims by December 2013	15	2010/11	The non-material compensation claims were resolved and settled during the 2012-13 biennium	Recommendation implemented
Continue to follow up on the findings of the Development Fund for Iraq and successor audits	20	2010/11	The latest audit reports on the Development fund acknowledges that the metering of Iraqi oil exports is now up to industry standards	Recommendation implemented
Make a decision on the treatment of the historic shortfall such that the issue is resolved by December 2013	24	2010/11	The Governing Council considers that the previous non-monetary shortfall to be immaterial and therefore closed	Recommendation implemented
Renew its efforts to ensure that the completed projects meet their outstanding reporting requirements so that withheld funds can be returned before 31 December 2013	31	2010/11	All withheld funds have now been paid out	Recommendation implemented
Review the operating reserve and make any surplus available for compensation payments	33	2010/11	The Commission reduced its operating reserve during the biennium	Recommendation implemented
Actively engage with the United Nations IPSAS Task Force to identify the impact of IPSAS on the Commission, develop IPSAS-compliant financial statements, pro forma financial statements and notes relevant to the Commission's circumstances by 31 December 2012, and produce shadow IPSAS-compliant financial statements for 2013	37	2010/11	The Commission and the United Nations have considered the financial reporting of its key account balances, transactions and activities under IPSAS and accordingly developed IPSAS-compliant accounting policies	Recommendation implemented

III. Certification of the financial statements

Letter dated 31 March 2014 from the Assistant Secretary-General, Controller, addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Compensation Commission established pursuant to Security Council resolution 692 (1991) for the biennium ended 31 December 2013 have been prepared in accordance with financial rule 106.10.

The summary of significant accounting policies applied in the preparation of the financial statements is included as notes to the statements. The notes provide additional information and clarifications for the financial activities undertaken by the Commission during the period covered by the statements, for which the Secretary-General has administrative responsibility.

I certify that the appended financial statements of the United Nations Compensation Commission established pursuant to Security Council resolution 692 (1991), numbered I to III, are correct.

(*Signed*) Maria Eugenia **Casar**
Assistant Secretary-General
Controller

IV. Financial report for the biennium ended 31 December 2013

Introduction

1. The Secretary-General has the honour to submit herewith the financial report on the accounts of the United Nations Compensation Commission for the biennium ended 31 December 2013. The accounts consist of three statements and the related notes.

2. The present report is designed to be read in conjunction with the financial statements. Attached hereto is an annex, which includes supplementary information that is required by the Financial Regulations and Rules of the United Nations to be reported to the Board of Auditors.

Background

3. The Compensation Commission is a subsidiary organ of the Security Council. It was established in accordance with Security Council resolutions 687 (1991) and 692 (1991) to process claims and pay compensation for direct losses and damage suffered by individuals, corporations, Governments and international organizations as a direct result of the invasion and occupation of Kuwait by Iraq (2 August 1990-2 March 1991).

4. The Commission is currently composed of the Governing Council and the Secretariat. The Governing Council is the policymaking organ of the Commission. Its composition is the same as that of the 15-member Security Council at any given time. The Secretariat, headed by the Executive Head, services and provides assistance to the Governing Council.

Operations

5. Funds to pay compensation are drawn from the United Nations Compensation Fund, which receives a percentage of the proceeds generated by the export sales of Iraqi petroleum and petroleum products. This percentage has been set at 5 per cent since its reduction from 25 per cent under Security Council resolution 1483 (2003). In its resolution 1956 (2010), the Security Council reaffirmed the 5 per cent and further decided that 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers shall also be deposited into the Compensation Fund.

6. From its inception until the completion of claims processing in early 2005, more than 2.6 million claims were received by the Commission within the filing deadlines. The Commission has resolved all of the claims submitted, consisting of the claims of individuals for departure from Kuwait or Iraq (category “A” claims), the claims of individuals for serious personal injury or death (category “B” claims), the claims of individuals for losses up to $100,000 (category “C” claims), the claims of individuals for losses over $100,000 (category “D” claims), the claims of corporations, other private legal entities and public sector enterprises (category “E” claims), and the claims of Governments and international organizations (category “F” claims). In total, approximately $52.3 billion has been awarded as compensation to successful claims. As at 31 December 2013, the Commission had made available to Governments and international organizations approximately $43.4 billion for distribution to successful claimants in all categories.

7. The Governing Council has adopted various payment mechanisms concerning the priority of the payment of claims. The current mechanism was adopted at the Council's sixty-eighth session in November 2009. Pursuant to Governing Council decision 267, payments are made on a quarterly basis utilizing all available funds in the Compensation Fund.

8. In addition to the payment of successful claims, the main ongoing activity of the Secretariat includes overseeing the Follow-up Programme for Environmental Awards, which was established in December 2005 by Governing Council decision 258 to monitor the technical and financial implementation of approximately $4.3 billion of environmental remediation and restoration projects being undertaken with funds awarded in the F4 category of claims. The Programme is funded by the participating Governments, namely, the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia, through contributions proportional to the value of their awards.

9. In April 2011, the Governing Council adopted decision 269, by which it provided that the mandate of the Programme would be fulfilled upon the participating Governments' establishment of enumerated structural systems and controls and the provision of adequate assurances for their maintenance and for the use of the award funds for the successful completion of the projects and a determination to that effect by the Governing Council.

10. In May 2013, the Governing Council adopted decision 270, by which it declared the Programme mandate to be fulfilled in the case of Saudi Arabia, subject to the receipt of signed assurances as required under its decision 269, and to be closed in respect of the Islamic Republic of Iran. In November 2013, the Council adopted decision 271, by which it declared the Programme mandate to be fulfilled in the cases of Jordan and Kuwait, also subject to the receipt of signed assurances. As at 31 December 2013, signed assurances had been received from Saudi Arabia and Kuwait, with Jordan's assurances received in early January 2014.

11. A special account was established in 2009 in order to account for funds withheld pursuant to Governing Council decisions 258 and 266 in respect of the total F4 environmental awards that are subject to the Follow-up Programme for Environmental Awards, and accrued interest thereon. In accordance with Council decision 268 of November 2009, interest accrued on the withheld funds is transferred to the respective Governments annually for the implementation of the environmental projects.

Overview

12. The Compensation Fund is operated in accordance with the Financial Regulations and Rules of the United Nations. It finances the payments of compensation awards decided by the Commission as well as the administrative costs (with the exception of the Follow-up Programme for Environmental Awards). The income to the Fund for the biennium 2012-2013 increased by 39.7 per cent, from $6,562.2 million in the previous biennium to $9,165.7 million, as a result of increases in oil prices and production.

13. Expenditures during the biennium 2012-2013 amounted to $9,161.6 million comprising compensation awards of $9,154.4 million, which represents 99.9 per cent of the total expenditure, administrative expenditures of $3.0 million in respect of the Commission's activities funded by the Compensation Fund and $4.2 million in respect

of the activities under the Follow-up Programme for Environmental Awards, which is funded by the participating Governments. This compares with total expenditures of $6,167.8 million in the previous biennium, comprising compensation awards of $6,161.6 million, administrative expenditures of $2.7 million and $3.5 million, respectively, for the above activities. The increase of 48.6 per cent in payment of the compensation awards is due to the increased revenue referred to in paragraph 12. Administrative expenses reflect an increase mainly with respect to the Follow-up Programme for Environmental Awards, which was fully staffed through the biennium 2012-2013, as well as the costs associated with the intensification of the collaboration with the participating Governments in the light of decision 269 of the Governing Council.

14. Pursuant to its decision 252, the Governing Council decided that any unrecovered overpayments awarded in respect of competing business claims would be recovered from the final payments to the concerned Governments. Furthermore, at its sixty-first session, in 2006, the Council decided, inter alia, that the remaining balance in respect of duplicate awards from Kuwait should be recovered through an offset from the final payments of its compensation awards. Overall, as at 31 December 2013, there remained a receivable amount of $4.9 million, which is expected to be recovered from the final payments to Kuwait.

15. As at 31 December 2013, the total funds withheld from the environmental awards as per the applicable provisions of decisions 258 and 266, together with the accrued interest to be paid to the participating Governments, amounted to $43.3 million, comprising $40.8 million for Jordan, $2.1 million for Kuwait and $0.4 million for Saudi Arabia.

16. The end-of-service liabilities of after-service health insurance, repatriation benefits and unused vacation days were all determined on an actuarial basis, as described in note 7 to the financial statements. Compared with the total accrued liabilities for end-of-service and post-retirement benefits of $6.0 million as at 31 December 2011, the total accrued liabilities had increased to $6.7 million as at 31 December 2013, comprising accrued liabilities for after-service health insurance of $6.3 million, for repatriation benefits of $0.2 million and for termination indemnity of $0.2 million. The increase is attributable primarily to an overall decrease of the discount rates from 2011 to 2013.

Annex

Supplementary information

1. The present annex provides supplementary information that the Secretary-General is required to provide.

Write-off of losses of cash and receivables

2. In accordance with financial rule 106.7 (a), there were write-offs of receivables for the United Nations Compensation Commission totalling $462.60 during the biennium 2012-2013.

Write-off of losses of property

3. In accordance with financial rule 106.7, there were no write-offs of non-expendable property loss during the biennium 2012-2013.

Ex gratia payments

4. There were no ex gratia payments during the biennium 2012-2013.

V. Financial statements for the biennium ended 31 December 2013

United Nations Compensation Commission[a]

I. Statement of income and expenditure and changes in reserves and fund balances for the biennium ended 31 December 2013

(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*[b]	*Funds withheld from Environmental Awards*[c]	*Eliminations*[d]	*Total 2013*	*Total 2011*
Income						
Allocations from other organizations[e]	9 151 729	–	–	–	9 151 729	6 539 008
Contributions from claimant Governments	–	4 908	–	–	4 908	4 134
Interest income	12 377	53	13 254	–	25 684	60 100
Other/miscellaneous income	1 573	96	–	–	1 669	624
Total income	**9 165 679**	**5 057**	**13 254**	**–**	**9 183 990**	**6 603 866**
Expenditure						
Staff and other personnel costs	2 229[f]	2 724	–	–	4 953	4 356
Travel	77[f]	260	–	–	337	157
Contractual services	115[f]	–	–	–	115	102
Operating expenses	489[f]	1 239	–	–	1 728	1 574
Acquisitions	6[f]	–	–	–	6	15
Compensation awards	9 154 434	–	–	–	9 154 434	6 161 630
Total expenditure	**9 157 350**	**4 223**	**–**	**–**	**9 161 573**	**6 167 834**
Excess (shortfall) of income over expenditure	**8 329**	**834**	**13 254**	**–**	**22 417**	**436 032**
Non-budgeted accrued (expense) for after-service health insurance[g]	(802)	(138)	–	–	(940)	(2 046)
Prior period adjustments	(19)	–	–	–	(19)	(2 325)
Net excess (shortfall) of income over expenditure	**7 508**	**696**	**13 254**	**–**	**21 458**	**431 661**
Cancellation of prior-period obligations	57	13	–	–	70	30
Other adjustments to reserve and fund balances	–	–	(13 232)[h]	–	(13 232)	(37 424)
Reserves and fund balances, beginning of period	1 069 673	2 283	–	–	1 071 956	677 689
Reserves and fund balances, end of period	**1 077 238**	**2 992**	**22**	**–**	**1 080 252**	**1 071 956**

[a] See note 1.
[b] See note 4.
[c] See note 5.
[d] Upon combination of the columns, transactions between the columns are eliminated for a fair presentation of the "Total" column.
[e] Represents 5 per cent of the proceeds from Iraqi oil sales deposited into Oil Proceeds Receipts Account pursuant to Security Council resolutions 1483 (2003) and 1956 (2010). See note 1 (c) and (d).
[f] Administrative expenses are financed from the operating reserve.
[g] Represents net increase in after-service health insurance liabilities during 2012-2013.
[h] Interest earned is payable to F4 claimant Governments under the Environmental Programme and shown in the "Other accounts payable" line in Statement II. See note 5.

The accompanying notes are an integral part of the financial statements.

United Nations Compensation Commission[a]
II. Statement of assets, liabilities and reserves and fund balances as at 31 December 2013

(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*[b]	*Funds withheld from Environmental Awards*[c]	*Eliminations*[d]	*Total 2013*	*Total 2011*[e]
Assets						
Cash and term deposits	24 830	–	47	–	24 877	5 686
Main cash pool[f]	1 050 821	3 470	44 154	–	1 098 445	2 136 690
Inter-fund balances receivable	3 191	–	–	(913)	2 278	2 762
Other accounts receivable	4 975[g]	2	–	–	4 977	5 000
Deferred charges	7	–	–	–	7	29
Total assets	**1 083 824**	**3 472**	**44 201**	**(913)**	**1 130 584**	**2 150 167**
Liabilities						
Unliquidated obligations — current period	144	31	–	–	175	198
Inter-fund balances payable	–	93	837	(913)	17	–
Other accounts payable	103	6	43 342[h]	–	43 451	1 071 992
End-of-service and post-retirement liabilities	6 339[i]	350[j]	–	–	6 689	6 021
Total liabilities	**6 586**	**480**	**44 179**	**(913)**	**50 332**	**1 078 211**
Reserves and fund balances						
Operating reserve	10 039[k]	2 992	–	–	13 031	46 584
Cumulative surplus	1 067 199	–	22	–	1 067 221	1 025 372
Total reserves and fund balances	**1 077 238**	**2 992**	**22**	**–**	**1 080 252**	**1 071 956**
Total liabilities and reserves and fund balances	**1 083 824**	**3 472**	**44 201**	**(913)**	**1 130 584**	**2 150 167**

[a] See note 1.
[b] See note 4.
[c] See note 5.
[d] Upon combination of the columns, transactions between the columns are eliminated for a fair presentation of the “Total” column.
[e] Comparative figures have been reclassified to conform to current presentation.
[f] Represents share of the main cash pool and comprises cash and term deposits of $229,582,436, short-term investments of $437,757,960, long-term investment of $429,599,969 and accrued interest receivable of $1,505,194. See note 6.
[g] Includes $4,965,000 relating to duplicate and other claims to be recovered from the final payments of compensation awards to Kuwait.
[h] Represents funds withheld to be released to the F4 claimant Governments under the Environmental Programme upon a declaration by the Governing Council that the programme mandate has been fulfilled under decision 269 (2011). See note 5.
[i] Represents accrued liabilities for after-service health insurance costs of $6,043,000, for repatriation benefits of $76,000, for unused vacation days of $20,000 and for termination indemnity of $200,000. See note 2 (m) (vi) and note 7.
[j] Represents accrued liabilities for after-service health insurance costs of $281,000, for repatriation benefits of $61,000 and for unused vacation days of $8,000.
[k] During 2012, $3,462,000 was transferred from operating reserve to finance the Commission’s 2012-2013 administrative budget. In addition, $30,800,000 was transferred to the fund balance for payment of the remaining outstanding awards, resulting in an operating reserve balance of $10,039,000 as of 31 December 2013.

The accompanying notes are an integral part of the financial statements.

United Nations Compensation Commission[a]
III. Statement of cash flows for the biennium ended 31 December 2013

(Thousands of United States dollars)

	Compensation Fund	*Follow-up Programme for Environmental Awards*[b]	*Funds withheld from Environmental Awards*[c]	*Eliminations*[d]	*Total 2013*	*Total 2011*
Cash flows from operating activities						
Net excess (shortfall) of income over expenditure (Statement I)	7 508	696	13 254	–	21 458	431 661
(Increase) decrease in inter-fund balances receivable	(460)	28	3	913	484	(2 761)
(Increase) decrease in other accounts receivable	16	7	–	–	23	110 433
(Increase) decrease in deferred charges	22	–	–	–	22	(16)
Increase (decrease) in unliquidated obligations	(13)	(10)	–	–	(23)	(242)
Increase (decrease) in inter-fund balances payable	–	93	837	(913)	17	–
Increase (decrease) in other accounts payable	(56)	(27)	(1 028 458)	–	(1 028 541)	222 857
Increase (decrease) in deferred income	–	–	–	–	–	(4 134)
Increase (decrease) in end-of-service and post-retirement liabilities	595	73	–	–	668	2 252
Less: interest income	(12 377)	(53)	(13 254)	–	(25 684)	(60 100)
Net cash flows from operating activities	**(4 765)**	**807**	**(1 027 618)**	**–**	**(1 031 576)**	**699 950**
Cash flows from investing activities						
Interest income	12 377	53	13 254	–	25 684	
Net cash flows from investing activities	**12 377**	**53**	**13 254**	**–**	**25 684**	**60 100**
Cash flows from financing activities						
Cancellation of prior-period obligations	57	13	–	–	70	30
Transfer to other funds	–	–	–	–	–	–
Other adjustments to reserves and fund balances	–	–	(13 232)	–	(13 232)	(37 424)
Net cash flows from financing activities	**57**	**13**	**(13 232)**	**–**	**(13 162)**	**(37 394)**
Net increase (decrease) in cash and term deposits and cash pools	7 669	873	(1 027 596)	–	(1 019 054)	722 656
Cash and term deposits and cash pools, beginning of period	1 067 982	2 597	1 071 797	–	2 142 376	1 419 720
Cash and term deposits and cash pools, end of period	**1 075 651**	**3 470**	**44 201**	**–**	**1 123 322**	**2 142 376**

[a] See note 1.
[b] See note 4.
[c] See note 5.
[d] Upon combination of the columns, transactions between the columns are eliminated for a fair presentation of the “Total” column.

The accompanying notes are an integral part of the financial statements.

United Nations Compensation Commission
Notes to the financial statements

Note 1
United Nations Compensation Commission

(a) The United Nations Compensation Commission was established in 1991 in accordance with Security Council resolution 692 (1991) to process and pay claims for direct loss, damage or injury arising from the invasion and occupation of Kuwait by Iraq. Under that same resolution, the Council decided to establish a compensation fund, from which to pay successful claims;

(b) By its resolution 705 (1991), the Security Council adopted the Secretary-General's recommendation that the level of Iraq's contribution to the Compensation Fund would not exceed 30 per cent of the value of its exports of petroleum and petroleum products. By its resolution 986 (1995), the Council approved the allocation of 30 per cent of the proceeds from the sale of Iraqi oil to the Fund. Following Council resolution 1330 (2000), the allocation to the Fund was decreased from 30 per cent to 25 per cent effective 6 December 2000;

(c) By its resolution 1483 (2003), the Security Council reduced the level of Iraq's contribution to the Compensation Fund, effective 22 May 2003, to 5 per cent;

(d) By its resolution 1956 (2010), the Security Council reaffirmed the level of 5 per cent established in its resolution 1483 (2003). By the same resolution, the Council decided that 5 per cent of the value of any non-monetary payments of petroleum, petroleum products and natural gas made to service providers shall also be deposited into the Compensation Fund. These requirements are binding on the Government of Iraq, unless the Government and the Governing Council of the Compensation Commission decide otherwise.

Note 2
Summary of significant accounting and financial reporting policies of the United Nations Compensation Commission

(a) The accounts of the United Nations Compensation Commission are maintained in accordance with the Financial Regulations of the United Nations as adopted by the General Assembly and the rules formulated by the Secretary-General as required under the regulations and administrative instructions issued by the Under-Secretary-General for Management, or the Controller. They also take fully into account the United Nations system accounting standards, as adopted by the United Nations System Chief Executives Board for Coordination. The Commission follows International Accounting Standard 1, "Presentation of financial statements", on the disclosure of accounting policies, as modified and adopted by the Chief Executives Board, as shown below:

(i) Going concern, consistency and accrual are fundamental accounting assumptions of the United Nations system accounting standards. Where fundamental accounting assumptions are followed in financial statements, disclosure of such assumptions is not required. If a fundamental accounting assumption is not followed, that fact should be disclosed together with the reasons;

(ii) Prudence, substance over form, and materiality should govern the selection and application of accounting policies;

(iii) Financial statements should include clear and concise disclosure of all significant accounting policies that have been used;

(iv) The disclosure of the significant accounting policies used should be an integral part of the financial statements. These policies should normally be disclosed in one place;

(v) Financial statements should show comparative figures for the corresponding period of the preceding financial period;

(vi) A change in an accounting policy that has a material effect in the current period or may have a material effect in subsequent periods should be disclosed together with the reasons. The effect of the change should, if material, be disclosed and quantified.

(b) The Commission's accounts are maintained on a fund-accounting basis. Each fund is maintained as a distinct financial and accounting entity with a separate self-balancing, double-entry group of accounts. Financial statements reflect the activities of each fund or of a group of funds of the same nature.

(c) The financial period of the Commission is a biennium and consists of two consecutive calendar years. These financial statements have been prepared for the biennium ended 31 December 2013, with comparative prior figures presented for the biennium ended 31 December 2011.

(d) Generally, income, expenditure, assets and liabilities are recognized on the accrual basis of accounting.

(e) The financial statements of the Organization are presented in United States dollars, which is the functional and presentation currency of the United Nations. Accounts maintained in other currencies are translated into United States dollars at the time of the transactions at rates of exchange established by the United Nations. In respect of such currencies, the financial statements reflect the cash, investments and current accounts receivable and payable in currencies other than the United States dollars, translated at the applicable United Nations rates of exchange in effect as at the date of the statements. In the event that the application of actual exchange rates at the date of the statements would provide a valuation materially different from the application of the United Nations rates of exchange for the last month of the financial period, a footnote will be provided quantifying the difference.

(f) The Commission's financial statements are prepared on the historical cost basis of accounting, and are not adjusted to reflect the effects of changing prices for goods and services.

(g) The statement of cash flows is based on the indirect method of cash flow as referred to in the United Nations system accounting standards.

(h) The Commission's financial statements are presented in accordance with the ongoing recommendations of the Task Force on Accounting Standards to the High-level Committee on Management.

(i) The results of the Commission's operations presented in statements I, II, and III are shown by general type of activity as well as on a combined basis for all funds. Their presentation on a combined basis does not imply that the various separate funds can be intermingled in any way, since, normally, resources may not be utilized between funds.

(j) Income:

(i) Allocations from other funds represent monies appropriated or designated from one fund for the transfer to and disbursement from another fund;

(ii) Income received under inter-organizational arrangements represents allocations of funding from agencies to enable the Commission to administer projects or other programmes on their behalf;

(iii) Interest income includes all interest earned on deposits in various bank accounts, investment income earned on marketable securities and other negotiable instruments and investment income earned in the cash pools. All gains/losses on investments and foreign exchange differences relating to the cash pools are offset against investment income. Investment income and costs associated with the operation of investments in the cash pools are allocated to participating funds;

(iv) Miscellaneous income includes awards no longer payable to claimants owing to expiration of the deadline established by the Governing Council at its fifty-sixth session, income from the sale of used or surplus property, refunds of expenditures charged to prior periods, income from net gains resulting from currency translations, monies accepted for which no purpose was specified, and other sundry income;

(v) Income for future financial periods is not recognized in the current financial period and is recorded as deferred income as referred to in note 2 (m) (iii).

(k) Expenditure:

(i) Expenditure is incurred against authorized allotments. Total expenditure reported includes unliquidated obligations and disbursements;

(ii) Expenditure incurred for non-expendable property is charged to the budget of the period when acquired and are not capitalized. Inventory of such non-expendable property is maintained at historical cost;

(iii) Expenditure for future financial periods is not charged to the current financial period and is recorded as deferred charges as referred to in note 2 (l) (v) below.

(l) Assets:

(i) Cash and term deposits represent funds held in demand deposit accounts and interest-bearing bank deposits;

(ii) Cash pools comprise participating funds’ share of cash and term deposits, short-term and long-term investments and accrual of investment income, all of which are managed in the pools. The investments in the cash pools are stated at their fair value and include marketable securities and other negotiable instruments acquired to produce income. The share in the cash pools is reported separately in each participating fund’s statement and the composition of its investments is disclosed in the footnotes to the statements. Currently, the Compensation Commission participates only in the main cash pool. Additional details are provided in note 6;

(iii) Inter-fund balances reflect transactions between funds, and are included in the amounts due to and from the United Nations General Fund. Inter-fund balances also reflect transactions directly with the United Nations General Fund. Inter-fund balances are settled periodically dependent upon availability of cash resources;

(iv) Provision for delays in collection of receivable balances is not made;

(v) Deferred charges normally comprise expenditure items that are not properly chargeable to the current financial period. They will be charged as expenditure in a subsequent period. These expenditure items include commitments approved by the Controller for future financial periods in accordance with financial rule 106.7. Such commitments are normally restricted to administrative requirements of a continuing nature and to contracts or legal obligations where long lead times are required for delivery;

(vi) For purposes of the balance sheet statements only, those portions of education grant advances that are assumed to pertain to the scholastic years completed as at the date of the financial statement are shown as deferred charges. The full amounts of the advances are maintained as accounts receivable from staff members until the required proofs of entitlement are produced, at which time the budgetary accounts are charged and the advances settled;

(vii) Maintenance and repairs of capital assets are charged against the appropriate budgetary accounts. Furniture, equipment, other non-expendable property and leasehold improvements are not included in the assets of the Commission. Such acquisitions are charged against budgetary accounts in the year of purchase. The value of non-expendable property is disclosed in notes to the financial statements (see note 8);

(m) Liabilities and reserves and fund balances:

(i) Operating reserves are included in the totals for reserves and fund balances shown in the financial statements;

(ii) Unliquidated obligations for future years are reported both as deferred charges and as unliquidated obligations;

(iii) Deferred income includes income received but not yet earned;

(iv) Current-period obligations remain valid for 12 months following the end of the biennium to which they relate, after which the remaining balances are cancelled and returned to the Compensation Fund as savings on or cancellation of prior period obligations;

(v) Other accounts payable include amounts withheld with respect to environmental projects pursuant to Governing Council decisions 258 (2005) and 266 (2009), which shall be released in phases, upon the successful completion of the related projects;

(vi) Accrued liabilities for end-of-service and post-retirement benefits comprise those for after-service health insurance, repatriation benefits, unused vacation days and termination indemnity. The liabilities for after-service health insurance, repatriation benefits and unused vacation days are determined on an actuarial basis. The liability for termination benefits is based on current costs, without discounting or other adjustments;

(vii) Contingent liabilities, if any, are disclosed in the notes to the financial statements.

The United Nations is a member organization participating in the United Nations Joint Staff Pension Fund, which was established by the United Nations General Assembly to provide retirement, death, disability and related benefits. The Pension Fund is a funded, multi-employer defined benefit plan. An actuarial valuation of the Pension Fund's assets and pension benefits is prepared every two years. As there is no consistent and reliable basis for allocating the related liabilities/assets and costs to individual organizations participating in the plan, the United Nations is not in a position to identify its share of the underlying financial position and performance of the plan with sufficient reliability for accounting purposes, and hence has treated this plan as if it were a defined contribution plan; thus the United Nations share of the related net liability/asset position of the Pension Fund is not reflected in the financial statements. The Organization's contribution to the Pension Fund consists of its mandated contribution at the rate established by the General Assembly, currently 7.9 per cent of the applicable pensionable remuneration for the participant and 15.8 per cent for the Organization, together with its share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are payable only if and when the General Assembly has invoked the provision of article 26, following a determination that there is a requirement for deficiency payments based on an assessment of the actuarial sufficiency of the Pension Fund as at the valuation date. As at the reporting date of the current financial statement, the General Assembly had not invoked that provision.

(n) The change from the United Nations system accounting standards to the International Public Sector Accounting Standards (IPSAS):

(i) The United Nations is transitioning from the use of the United Nations system accounting standards to IPSAS, which will guide presentation of the financial statements of the United Nations, including those of the Compensation Commission, commencing from the 2014 financial year. Hence, the present financial statements are the last statements that will be prepared on the basis of the United Nations system accounting standards;

(ii) IPSAS are based on full accrual accounting, which means that all assets and liabilities are presented on the face of the financial statements and expenses and revenues are recognized when incurred/earned, irrespective of the cash flows. IPSAS also require significantly more note disclosures in the financial statements;

(iii) IPSAS require annual financial statements; commencing from the 2014 financial year, IPSAS-compliant financial statements will be prepared and audited annually.

Note 3
Statements I, II and III

(a) Income from 5 per cent of proceeds from all export sales of Iraqi oil:

(i) Further to Security Council resolution 1483 (2003), by which the Council called for the deposit of 5 per cent of proceeds from all export sales of Iraqi petroleum, petroleum products and natural gases into the Compensation Fund, and Council resolution 1956 (2010), by which it called for the deposit of 5 per cent of the value of any non-monetary payments from those sales, income is recognized when the deposit is actually received by the Fund. The cash basis for recognition of this income is appropriate, considering a lack of reliable information to determine 5 per cent of proceeds that may have accrued but not yet received as of the reporting date, and also considering that such amount is neither under the control of, nor utilizable by the Fund. Cash received is shown in the "Allocations from other organizations" line under the income section in statement I.

(ii) In its authority over the arrangements for ensuring payments are made to the Compensation Fund, the Governing Council continues to monitor the deposit of revenues to the Fund. At its seventy-sixth session, in November 2013, the Governing Council noted its continued satisfaction with the transfer of 5 per cent of Iraq's oil revenues to the Fund, as required under Security Council resolution 1483 (2003), which has been under the oversight of Iraq's Committee of Financial Experts since July 2011. The Governing Council also noted its satisfaction with the deposit of the equivalent of 5 per cent of the value of non-monetary payments to service providers as required under Security Council resolution 1956 (2010). The amount of $568.1 million was deposited to the Fund over the course of the biennium in relation to such transactions; $211.7 million in 2012 and $356.4 million in 2013.

(iii) In the Secretary-General's fifth report pursuant to paragraph 6 of resolution 1956 (2010) evaluating Iraq's continued compliance with the provisions of paragraph 21 of resolution 1483 (2003), issued on 18 December 2013 (S/2013/749), the Secretary-General concluded that the Government of Iraq remains committed to complying with its obligations.

(b) Compensation awards. As at 31 December 2013, compensation awards that have been approved by the Governing Council of the Commission but not yet paid or obligated pending receipt of funds from the sales of oil proceeds further to Security Council resolutions 1483 (2003) and 1956 (2010) stood at approximately $8.9 billion.

(c) Awards of interest. In March 2005, the Governing Council adopted decision 243, in which it decided that no interest would be paid on awards of compensation. The decision was communicated to all entities that had submitted claims.

(d) Duplicate and other claims. By its decision 252 of 29 September 2005, the Governing Council decided that any unrecovered overawarded amounts in respect of competing business claims would be recovered from the final payments to the concerned Governments. In this regard, an amount of $3.1 million remains outstanding from Kuwait as at 31 December 2013. Furthermore, at its sixty-first session, in November 2006, the Governing Council decided, inter alia, that the remaining balance of $1.8 million in respect of duplicate awards from Kuwait should be recovered through an offset from the final payments of compensation awards to Kuwait. Therefore, as at 31 December 2013, the overall remaining amount expected to be recovered from the final payments of compensation awards to Kuwait was $4.9 million.

Note 4
United Nations Compensation Commission Follow-up Programme for Environmental Awards

The Governing Council created the Programme by its decision 258 in December 2005 in consultation with the Government of Iraq and the participating Governments of the Islamic Republic of Iran, Jordan, Kuwait and Saudi Arabia, as a mechanism for monitoring the financial and technical aspects of various environmental projects being undertaken by the claimant Governments with $4.3 billion in funds awarded by the Commission. The Programme was financed by the participating Governments through contributions from their respective shares of specified awards.

In April 2011, the Governing Council adopted decision 269, by which it provided that the mandate of the Programme would be fulfilled upon the participating Governments’ establishment of enumerated structural systems and controls and the provision of adequate assurances for their maintenance and for the use of the award funds for the successful completion of the projects and a determination to that effect by the Council.

In May 2013, the Governing Council adopted decision 270, by which it declared the Programme mandate to be fulfilled in the case of Saudi Arabia, subject to the receipt of signed assurances as required under decision 269, and closed in respect of the Islamic Republic of Iran. In November 2013, the Council adopted decision 271, by which it declared the Programme mandate to be fulfilled in the cases of Jordan and Kuwait, also subject to the receipt of signed assurances. As at 31 December 2013, signed assurances had been received from Saudi Arabia and Kuwait, with Jordan’s assurances received in early January 2014.

Note 5
Funds withheld under the Follow-up Programme for Environmental Awards

A special account was established in order to account for funds withheld pursuant to Governing Council decisions 258 and 266, and accrued interest thereon. The Council decided, in its decision 258 of December 2005, to withhold 15 per cent of the total F4 environmental awards subject to the Programme from the last payment to each of the participating Governments, and to release the withheld amounts upon satisfactory completion of the environmental projects. In April 2009, the Council further decided, in its decision 266, that an additional amount equivalent to 10 per cent of the value of each of the five phased environmental projects with awards greater than $50 million should be retained pending further decisions of the Council. The funds withheld by the Compensation Commission under decisions 258 and 266 are retained in the special account in the United Nations. Furthermore, in accordance with decision 268, adopted by the Council in 2009, interest accrued on the funds is to be transferred to the respective Governments annually to be used for the implementation of the environmental projects. Decision 269 provides that, upon a determination by the Council that the mandate has been fulfilled, withheld funds under decisions 258 and 266 along with any accrued interest remaining under decision 268 are to be released to the participating Governments. With the adoption of decisions 270 and 271, as set out in note 4, the withheld funds under decisions 258 and 266 and accrued interest to 30 June 2013 in respect of Saudi Arabia, the Islamic Republic of Iran and Kuwait were transferred to the respective Governments by 31 December 2013. Following the receipt of the signed assurances from Jordan in early January 2014, withheld funds and interest accrued to 30 June 2013 were transferred in January 2014. Interest accrued from 1 July 2013 in respect of all four participating Governments remains to be paid.

Note 6
Cash pool

(a) Background:

(i) The United Nations Treasury centrally invests surplus funds on behalf of the United Nations Secretariat, including the United Nations Compensation Commission. Such surplus funds are combined in two internally managed cash pools, which invest in major segments of the money and fixed income markets. Pooling the funds has a positive effect on overall investment performance and risk because of economies of scale and the ability to spread yield curve exposures across a range of maturities;

(ii) Investment activities of the cash pools are guided by the principles contained in the Investment Management Guidelines. An investment committee periodically assesses compliance with the Guidelines and makes recommendations for updates thereto, and also reviews performance.

(b) Investment management objectives: further to the Guidelines, the investment objectives of the cash pools, in order of priority, are the following:

(i) Safety: ensure the preservation of capital;

(ii) Liquidity: ensure sufficient liquidity to enable the United Nations and participating entities to readily meet all operating requirements. Only assets which have a readily available market value and can be easily converted to cash are held;

(iii) Return on investment: attain a competitive market rate of return taking into account investment risk constraints and the cash flow characteristics of the pools. Benchmarks determine whether satisfactory market returns are being achieved in the cash pools.

(c) Cash pools:

(i) United Nations Headquarters Treasury manages investments in two cash pools — the main cash pool and the euro cash pool:

a. Effective 1 July 2013, the United Nations Headquarters and the United Nations Offices Away from Headquarters cash pools were combined to form the main cash pool. The main cash pool now comprises operational bank account balances and investments in United States dollars.

b. The euro cash pool comprises investments in euro currency; the pool participants are mostly offices away from Headquarters that may have surplus of euros from their operations.

(ii) The Commission participates in the main cash pool only, which is invested in a variety of securities. Such securities may include, but are not restricted to, bank deposits, commercial paper, supranational securities, government agency securities and government securities with maturities of five years or less. The main cash pool does not invest in derivative instruments, asset-backed, mortgage-backed or equity products;

(iii) Investment transactions are now accounted for on a trade-date basis, reflecting a change from settlement date to trade date; the 2011 figures have not been restated as the impact of the change has been deemed to be immaterial. Investment income is recognized on the accrual basis; transaction costs that are directly attributable to the investment activity of the cash pool are expensed as incurred in the cash pool and the net income is distributed proportionately to the funds participating in the cash pool; operational bank account fees are not netted but distributed to cash pool participants. The unrealized market gains/losses on securities and foreign exchange gains/losses are distributed proportionately to all participants based on their end of year balances;

(iv) Gains and losses on the sale of investments are calculated as the difference between the sales proceeds and book value and are reflected in the net income distributed to the cash pool participants;

(v) As at 31 December 2013, investments in the main cash pool have been revalued at fair value. The 31 December 2011 comparative figures represent the book value of investments. The 2011 figures have not been restated as the impact of the change in valuation has been deemed to be immaterial.

(d) Financial information pertaining to the main cash pool:

(i) As at 31 December 2013, the main cash pool held total assets of $9,548.7 million; of that amount $49.3 million was due to the Tribunal, as reflected against the cash pool line in statement II (statement of assets, liabilities and reserves and fund balances);

(ii) Financial information of the main cash pool as at 31 December 2013 is summarized in table 1.

Table 1
Summary of assets and liabilities of the main cash pool as at 31 December 2013
(Thousands of United States dollars)

	Main pool
Assets	
Short-term investments[a]	5 687 907
Long-term investments[a]	3 734 459
Total investments	**9 422 366**
Cash	113 200
Accrued investment income	13 084
Total assets	**9 548 650**
Liabilities	
Payable to the Commission	1 098 445
Payable to other main cash pool participants not reported in Vol. I	8 450 205
Total liabilities	**9 548 650**
Net assets	**–**

Summary of net income of the main cash pool for the biennium ended 31 December 2013
(Thousands of United States dollars)

	Main pool
Income	
Investment revenue	96 592
Realized gains on sales of securities	24 643
FX adjustments	4 241
Unrealized gains (losses)	4 811
Net income from investments	**130 287**
Bank fees	(1 083)
Net income from operations	**129 204**

[a] Fair value.

(e) Composition of the main cash pool:

Table 2 shows a breakdown of investments held in the main cash pool by type of instrument:

Table 2
Investments of the main cash pool by type of instrument as at 31 December 2013
(Thousands of United States dollars)

Main cash pool	*Book value*	*Fair value*[a]
Bonds		
Non-United States agencies	2 073 122	2 077 421
Non-United States sovereigns	670 963	674 773
Supranationals	250 075	250 246
United States agencies	555 494	556 492
United States treasuries	1 597 161	1 592 050
Subtotal	**5 146 815**	**5 150 982**
Discounted instruments	2 138 208	2 138 849
Certificate of deposits	250 000	250 003
Term deposits	1 882 532	1 882 532
Total investments	**9 417 555**	**9 422 366**

[a] Fair value is determined by the independent custodian based on valuations of securities that are sourced from third-parties.

(f) Financial risk management:

The main cash pool is exposed to a variety of financial risks including credit risk, liquidity risk, currency risk and market risk (which includes interest rate risk and other price risks), as described below:

(i) Credit risk:

The Guidelines require that investments not be made in issuers whose credit ratings are below specifications, and also provide for maximum concentrations with given issuers. These requirements were met at the time the investments were made. The credit ratings used are those determined by the major credit-rating agencies; Standard & Poor's and Moody's are used to rate bonds and commercial paper, and the Fitch Viability Rating is used to rate bank term deposits.

The credit ratings of the issuers whose securities were held in the main cash pool are shown in table 3.

Table 3
Investments of the main cash pool by credit ratings as at 31 December 2013
(Thousands of United States dollars)

Main pool	*Total*[a]	*Ratings*
Bonds	5 150 982	S&P: 32.3% AAA and 63.1% AA+/AA; 4.6% NR; Moody’s: 81.9% Aaa and 18.1% Aa1/Aa3
Discounted instruments	2 138 849	S&P: 71.7% A-1+ and 24.1% NR; Moody’s: 95.8% P-1; Fitch: 4.2% aa-
Certificates of deposits	250 003	S&P: 40% A-1; Moody’s: 40% P-1; Fitch: 60% a+/a-
Term deposits	1 882 532	Fitch: 58.6% aa- and 41.4% a+/a/a-
Total investments	**9 422 366**	

[a] Represents the book value of securities as at 31 December 2013.

(ii) Liquidity risk:

The main cash pool is exposed to liquidity risk associated with the requirement of participants to make withdrawals on short notice. It maintains sufficient cash and marketable securities to meet commitments as and when they fall due. The major portion of the pool’s cash and cash equivalents and investments are available within one day’s notice to support operational requirements. Hence, the main cash pool is able to respond to withdrawal needs in a timely manner, and liquidity risk is considered to be low.

(iii) Currency risk:

Currency risk is the risk that the value of investments denominated in non-United States dollars will fluctuate owing to changes in foreign exchange rates versus the United States dollars. The main cash pool has no currency risk for its investments which are in United States dollars. The main pool has currency risk for operational bank balances.

(iv) Interest rate risk:

Interest rate risk is the risk of variability in investments’ values due to change in interest rates. In general, as interest rate rises, the price of a fixed rate security falls, and vice versa. Interest rate risk is commonly measured by the fixed rate security’s duration, with duration being a number expressed in years. The larger the duration, the greater the interest rate risk;

The main cash pool is exposed to interest rate risk as their holdings comprise interest-bearing securities. As at 31 December 2013, the main cash pool invested primarily in securities with shorter terms to maturity, with the maximum term being less than four years. The average duration of the main cash pool was 0.92 years, which is considered to be an indicator of low interest rate risk;

Table 4 shows how fair value of the main cash pool as at 31 December 2013 would increase or decrease should the overall yield curve shift in response to changes in interest rates. The impact of a shift up or down of up to 200 basis points in the yield curve is shown (100 basis points equals 1 per cent). However, in view of the current interest rate environment, the basis point shifts should be considered to be illustrative.

Table 4
Sensitivity of the main cash pool to interest rates as of 31 December 2013

Shift in yield curve (Basis points)	*Change in fair value, main cash pool (Millions of United States dollars)*
(200)	174
(150)	130
(100)	87
(50)	43
0	(0)
50	(43)
100	(87)
150	(130)
200	(174)

(v) Other price risk:

The main cash pool is not exposed to significant other price risk, as it does not sell short, or borrow securities, or purchase securities on margin, all of which limits the potential loss of capital.

Note 7
Accrued liabilities for end-of-service and post-retirement benefits

(a) End-of-service and post-retirement benefits comprise after-service health insurance coverage, repatriation benefits, commutation of unused vacation days and termination indemnity. As disclosed in note 2 (m) (vi), the liabilities for after-service health insurance, repatriation benefits and unused vacation days are determined on an actuarial basis by an independent, qualified actuarial firm. The liability for termination benefits is based on current costs, without discounting or other adjustments.

(b) After-service health insurance:

(i) Upon end of service, staff members and their dependants may elect to participate in a defined-benefit health insurance plan of the United Nations, provided they have met certain eligibility requirements, including 10 years of participation in a United Nations health plan for those who were recruited after 1 July 2007 and 5 years for those who were recruited prior to that date. This benefit is referred to as after-service health insurance;

(ii) The major assumptions used by the actuarial firm to determine the liabilities for after-service health insurance as at 31 December 2013 were:

a. A single equivalent discount rate of 1.85 per cent based on a weighted blend of three discount rate assumptions, in United States dollars, euros and Swiss francs (previously, a single equivalent discount rate of 4.5 per cent was used based only on high-quality corporate bonds denominated in United States dollars);

b. A flat health-care yearly escalation rate of 5.0 per cent for non-United States medical plans and health-care escalation rates of 7.3 per cent for all other medical plans (except 6.3 per cent for the United States Medicare plan and 5.0 per cent for the United States dental plan), grading down to 4.5 per cent over 10 years;

c. Retirement, withdrawal and mortality assumptions consistent with those used by the United Nations Joint Staff Pension Fund in making its own actuarial valuation of pension benefits;

(iii) In the context of after-service health insurance valuation, contributions by all plan participants should also be considered in determining the Commission's residual liability. Thus, contributions from retirees are deducted from the gross liability and a portion of the contributions from active staff is also deducted to arrive at the Commission's residual liability in accordance with cost-sharing ratios authorized by the General Assembly. These ratios require that the Commission's share not exceed one half for non-United States health plans, two thirds for United States health plans and three quarters for the Medical Insurance Plan;

(iv) On the basis outlined in subparagraphs (ii) and (iii) above, the present value of the accrued liability as at 31 December 2013 was estimated at $6,324,000, net of contributions from plan participants. The net liability of $6,324,000 compares to an estimate of $5,614,000 as at 31 December 2011;

(v) Further to the assumptions in subparagraph (ii) above, it is estimated that the present value of the liability would increase by 26 per cent and decrease by 20 per cent if the medical trend cost increased or decreased by 1 per cent, respectively, all other assumptions remaining constant. Similarly, it is estimated that the accrued liability would increase by 27 per cent and decrease by 20 per cent if the discount rate decreased or increased by 1 per cent, respectively, all other assumptions remaining constant.

(c) Repatriation benefits:

(i) Upon end of service, staff who meet certain eligibility requirements, including residency outside their country of nationality at the time of separation, are entitled to a repatriation grant, which is based on length of service, and travel and removal expenses. Those benefits are collectively referred to as repatriation benefits;

(ii) As referred to in note 2 (m) (vi), an actuarial firm was engaged to carry out an actuarial valuation of repatriation benefits as at 31 December 2013. The major assumptions used by the actuarial firm were a single equivalent discount rate of 2.89 per cent, annual salary increases consistent with the rates used by the Pension Fund in making its own actuarial valuation of pension benefits, and travel and shipment cost increases of 2.5 per cent per annum;

(iii) On the basis of those assumptions, the present value of the accrued liability for repatriation benefits as at 31 December 2013 values was estimated at $137,000.

(d) Unused vacation days:

(i) Upon end of service, staff members holding fixed-term or continuing appointments may commute up to a maximum of 60 unused vacation days;

(ii) As referred to in note 2 (m) (vi), an actuarial firm was engaged to carry out an actuarial valuation of the liability associated with unused vacation days as at 31 December 2013. The major assumptions used by the actuarial firm were a single equivalent discount rate of 4.40 per cent and an annual rate of increase in accumulated annual leave balances of 10.9 days in each of the first three years, 1 day per year in the fourth to eighth year and 0.5 days annually thereafter, capping at an accumulation of 60 days. Salaries are assumed to increase annually at rates consistent with those used by the Pension Fund in making its own actuarial valuation of pension benefits;

(iii) On the basis of these assumptions, the present value of the accrued liability for unused vacation days as at 31 December 2013 was estimated at $28,000.

(e) Termination indemnity: some staff members are entitled to a termination indemnity should the Commission terminate their appointments. The Commission's liability for such costs as at 31 December 2013 is estimated to be $200,000.

Note 8
Non-expendable property

In accordance with United Nations accounting policies, non-expendable property is not included in the fixed assets of the Commission but is charged against the current allotment in the year of purchase. The Commission's non-expendable property, valued at historical cost as at 31 December 2013 and 2011, is set out in table 5.

Table 5
Non-expendable property value

(Thousands of United Sates dollars)

	2013	*2011*
Balance as at 1 January	245	263
Add: acquisitions	15	22
Less: dispositions	(133)	(40)
Other adjustments	43	–
Balance as at 31 December	**170**	**245**

Note 9
Future operations

The Secretariat's principal areas of activity relate to servicing the Governing Council, the arrangements for ensuring that deposits are made to the Compensation Fund and payment of the remaining outstanding award under decision 267, which, as at 31 December 2013, was approximately $8.9 billion.

In addition, with the adoption of Governing Council decisions 270 and 271 relating to the Follow-up Programme for Environmental Awards, the Secretariat is also focusing on winding down activities, including the release of the remaining accrued interest, the archiving of the programme documents, the preparation of a final accounting to the participating Governments on the administrative expenditures of the Secretariat in respect of the Programme, and the return of any remaining funds in accordance with the proportional budgetary contribution of each Government.

Given the current levels of income to the Compensation Fund and recent projections, it is estimated that the outstanding award balance will be paid in full by mid-2015. As the mandate of the Commission is nearing its conclusion, the Secretariat is also focusing on other liquidation-related activities necessary to wind the Commission down.